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THESIS

CASH MANAGEMENT IN THE
UNITED STATES MARINE CORPS

by

Jon W. Farmer

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Thesis Advisor J.G. San Miguel

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Cash Management in the United States Marine Corps

by

Jon W. Farmer
Major, United States Marine Corps
B.S., Texas A&M University, 1970

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ABSTRACT

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The purpose of this thesis is twofold. First, it is to provide a general overview of current Department of the Treasury requirements and the current status of Marine Corps efforts in implementing policy to satisfy those requirements. And second, it will bring under one cover, the historical background, directive literary references, current requirements, and current Marine Corps policy for use as an all-encompassing reference for future Marine Corps graduates in Financial Management.

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I. INTRODUCTION

A. IMPORTANCE OF CASH MANAGEMENT

Efficient cash management within the Federal government has always been a stated objective in most agency internal control programs. However, executive level emphasis, coupled with the profit motive has, until recently, been non-existent. Though still a non-profit organization, the recent increase in Federal government spending and a ballooning deficit have added greater significance to any cost saving procedure. Beginning in the late 1970's with the Carter Administration, the Department of the Treasury began a campaign for effective cash management.

The current Administration recently launched its own war against ineffective monetary controls on 22 September, 1982. The program is called "Reform '88--Cash Management." The program was sponsored by Joe Wright, the Deputy Director of the Office of Management and Budget. The recent government focus on financial management policies consists of guidance, direction and procedural requirements promulgated by several public laws, Office of Management and Budget (OMB) Circulars, Treasury Directives, and Secretary of the Navy Instructions.

OMB and Treasury Directives have placed procedural and reporting requirements on all Federal agencies, including the Department of Defense and the United States Marine Corps.

A narrative summary of the above cited directives and an analysis of implementational effects on Marine Corps financial operations form the basis for this study.

B. OBJECTIVES AND SCOPE

The objective of this thesis is to examine the implementation of recent federally directed cash management initiatives within the United States Marine Corps. Status will be evaluated at the Headquarters, U.S. Marine Corps level as well as at the major commands, and significant implementation problems will be analyzed.

The study will initially provide a narrative background and summary of the pertinent legislation and directives that initiated the current emphasis on cash management. Included will be a listing of procedural and reporting requirements. The narrative will include discussions of such cash management topics as the Prompt Payment Act, Treasury Circular 1084, the Debt Collection Act, the Federal Manager's Financial Integrity Act, OMB Circulars A-123 and A-125, Internal Control, electronic funds transfers, lock boxes, the Direct Deposit Program and others. Finally, the study will provide an analysis of the implementational aspects of the current cash management legislation.

The purpose of this thesis is to provide a general background source document in the area of current cash management policy within the United States Marine Corps and attention being given to current developments. In addition, it should be especially helpful to those Marine officers entering the occupational field 3415 (financial manager) subsequent to graduation from the Naval Postgraduate School and who have had no previous financial background.

C. METHODOLOGY

In order to obtain current data and background, visits were made to the Marine Corps Finance Center at Kansas City, Mo.; the annual Professional Development Institute conference sponsored by the American Society of Military Comptrollers, held in Kansas City; Headquarters, Fourth Marine Division (Rein) at New Orleans, La.; and the Headquarters, Fourth Marine Aircraft Wing, also at New Orleans. Data and information were collected through personal interviews with personnel at these Commands who are directly involved with aspects of cash management. These include areas of systems management, quality assurance, internal control, and receipts and disbursements. Additional information was obtained through personal and telephone interviews with representatives of the Office of the Fiscal Director and Fiscal Division, Headquarters, U.S. Marine Corps, Washington, D.C. Finally, telephone interviews with a number of local disbursing officers at the major command level were conducted to ascertain the effectiveness of information dissemination throughout the chain of command.

D. ORGANIZATION OF THESIS CHAPTERS

The initial chapter of this thesis provides the introduction. The second chapter briefly outlines the evolution of cash management in the Federal government and contains a literature review of pertinent directives. Chapter III provides an analysis and appraisal of the implementation of Federal cash management initiatives within the Marine Corps. Chapter IV highlights the recent Federal emphasis on administrative control and its relationship to effective cash management. Finally, Chapter V contains summary, conclusions and recommendations.

II. SURVEY OF CURRENT LITERATURE AND STATED REQUIREMENTS

A. INTRODUCTION

Recent Federal receipts and disbursements have each approached a half a trillion dollars annually. For this reason, The Department of the Treasury has become increasingly aware of its responsibility toward cash flow forecasting and maintaining a favorable liquidity position. With this in mind, several studies in the area of cash management have been conducted and the consensus of opinion is that the lack of the profit motive, coupled with the separation of cash management responsibility with decision-making functions, has been a major detriment to effective cash management within the Federal government. For example, the 1976 Joint Financial Management Improvement Program (JFMIP) study concluded:

> ...the previous assumptions concerning the importance of cash management in the Federal government and the general lack of attention by operating agencies to specific plans and procedures with respect to cash management...is not considered to be due to mismanagement but to a lack of motivation for agencies to manage cash effectively... [Ref. 1: 53]

Or as stated by the President's Reorganization Project Report:

> There has been little incentive in the Federal government for program and financial managers to practice cash management. Managers, in general, received no awards or penalties as a consequence of the way they manage collections and disbursements. With few exceptions, agencies and departments experience no

> direct cost or benefit related to the cash flows they handle. This absence of incentives for managers has tended to result in a lack of attention to managing cash flows, including a low priority for developing modern cash management systems, practices, and techniques. [Ref. 2: 53]

In layman's terms, a manager does not participate in the rewards of effective management. Likewise, neither is the manager required to bear the cost of mismanagement. In the area of cash management, the Treasury Department must fund a decentralized operation without benefit of either profit or responsibility centers.

The implication is that it has historically been difficult to obtain program agency acceptance of sound cash management techniques when such agencies and their principals are not held responsible for mismanagement through compensating budget adjustments. In the absence of such responsibility, the primary force behind the acceptance and implementation of a sound cash management program is a positive attitude and support by the higher executive levels. This must be emphasized down through the chain of command.

1. <u>Evolution of Cash Management in the Government</u>

The rapidly expanding costs of operating the Federal government became critical in the 1970's. The result was an increased interest in effective cash management. The Department of the Treasury had become keenly aware of the importance of the role that agency financial managers played in enabling it to maintain adequate cash levels to meet day-to-day operations. Therefore, in 1971, the Treasury created the Division of Banking and Cash Management whose mission was to coordinate and assist agencies in the design of effective cash management programs and the issuance of policy and procedural guidelines in order to ensure that the government's money was utilized effectively.

In 1974, the Joint Financial Management Improvement Program (JFMIP) study of cash management in the Federal government revealed many areas requiring improvement. In 1977, a Presidential Memorandum required the conduct of internal reviews of all cash management practices. The Administration established a special project staff, the President's Reorganization Project (PRP), in order to assist agencies in the conduct of such reviews. These reviews not only realized a monetary savings in interest, but increased cash management awareness throughout the Federal government.

Finally, in 1979, the Office of Management and Budget (OMB), created the Financial Priorities Program whose mission was to resolve major financial issues within the Federal government as they arose.

2. Cash Management Defined

Cash management is many times used interchangeably with financial management, which is not correct. Financial management has as its goal the effective utilization of all scarce resources. Cash is a resource and, therefore, cash management is just a subset of financial management. However, the efficient use of cash is the primary goal of effective financial management. A narrower definition of cash management might include "the forecasting of cash positions; controlling receipts, disbursements and cash balances so as to minimize the overall cost of holding cash" [Ref. 3: 2].

Simply stated, effective cash management implies the minimization of cash balances held, as opposed to invested, as well as timely receipt and disbursement of government funds.

B. ORGANIZATION RESPONSIBILITY FOR FINANCIAL MANAGEMENT

1. Department of the Treasury

The Treasury Department was created by Act of Congress on September 2, 1978. Many subsequent acts of legislation have been passed that have altered the structure or or delegated additional responsibilities to the Department. The Department's functions can be divided into four basic types: advising on economic, fiscal, and financial policies; serving as the government's financial agent; manufacturing coin and currency; and enforcing federal laws under its jurisdiction.

The Treasury Department consists of several Bureaus and Services, but the one having a direct impact on cash management policy is the Bureau of Government Financial Operations (BGFO). The Bureau of Government Financial Operations has various responsibilities, such as central accounting and reporting, central disbursing and check claims, Federal tax deposits, and many others, including cash management. In the area of cash management, the BGFO provides Treasury Department representation to the steering committee of the Joint Financial Management Improvement Program. Its stated responsibilities in the area of cash management are as follows:

> The Bureau supervises the Government-wide letter-of-credit system for financing Federal Grant-in-Aid programs; monitors all cash held outside the Treasury, including foreign currency balances resulting form Federal programs; and supervises the Government's depository system. [Ref. 4: 433]

Of the functions under the responsibility of the Treasury, the most critical is that of maintaining a level of cash balances that will enable the Federal government to meet its daily obligational cash requirements and, in the long run, sustain confidence in the entire economy. As the government's treasurer, the Treasury Department is responsible for maintaining sufficient cash balances to fund organizational disbursements. Fiscal operations are under the cognizance of the Fiscal Assistant Secretary, who has the authority to impact cash management practices of the various government agencies by several means, one of which is the Treasury Fiscal Requirements Manual (TFRM) which will be discussed in more detail later in this chapter.

2. <u>Office of Management and Budget</u>

The Office of Management and Budget (OMB) was established in the Executive Office of the President pursuant to Reorganization Plan 2 of 1970. The Executive Office delegated several functions to the Director of the Office of Management and Budget who reports directly to the President of the United States. These functions are several but those most germane are:

> To assist the President in the preparation of the budget and the formulation of the fiscal program of the Government;...and also that the monies appropriated by the Congress may be expended in the most economical manner with the least possible overlapping and duplication of effort. [Ref. 5: 82]

The Association of Government Accountants refers to the duties of OMB in simpler terms. "The Office of Management and Budget (OMB) assists the President in the discharge of his budgetary, management, and other executive responsibilities" [Ref. 6: 8]. The Office of Management and Budget accomplishes its goals by engaging in such actions as review of agency financial plans to ensure consistency with policies and directives of the current Administration; and, when necessary, planning and implementing programs to improve financial management throughout the Federal government. OMB also provides guidance in financial management through the issuance of memorandums and circulars on a continuing basis.

3. General Accounting Office

The General Accounting Office (GAO) was created by the Budget and Accounting Act of 1921. It was vested with the powers and duties of the Treasury's comptroller and auditor by several acts and statutes extending all the way back to the original Treasury Act of 1789. The Budget and Accounting Act of 1950, while expanding government audit activities, put the responsibility for accounting with the agencies and created new requirements for reporting to Congress. Since then several other acts of legislation have expanded the scope of the GAO's activities. Currently, the GAO is under the direction of the Comptroller General of the United States.

The functions of the General Accounting Office include auditing, accounting, debt collection, legal services, data verification, and reporting. Of specific interest to this document is the GAO's responsibility toward:

> ...making recommendations for greater economy and efficiency in government operations and for improving the effectiveness of government program.s And...conducting, jointly with the Office of Management and Budget, the Department of the Treasury, and the Office of Personnel Management, a continuous program to improve accounting and financial reporting in the Federal government. [Ref. 7: 42]

4. Program Agencies

The various program agencies within the Federal government are numerous but all are responsible for efficient management of resources (to include cash) and the avoidance of waste, fraud, and abuse. The Treasury has published directives requiring every department and agency to establish effective cash management systems and procedures and requires that such departments and agencies conduct financial activities in a manner that will make cash holding requirements available to the Treasury on a continuing basis in order to enhance cash flow forecasting.

In defining the problem, we have noted that the Treasury has responsibility for maintaining adequate cash balances. But the cash is, in actuality, held by agencies with little incentive for establishing efficient cash management policy. Though the absolute responsibility rests with the Treasury, the basic responsibility for financial management, as well as for implementing fiscal regulations, rests with each department and agency.

C. REFORM '88--IMPROVED CASH MANAGEMENT INITIATIVES

1. History/Background

As indicated earlier, the higher costs of money since the mid-1960's has significantly increased the need for improved management of Federal government cash balances because effective management results in reduced costs of any resource. In this case, the resource is money and reduced cost is manifested in both reduced interest costs and reduced Federal debt. President Carter demonstrated interest in effective cash management by citing it as a Presidential objective and a Presidential mission in his State of the Union address in 1977.

One of the biggest innovations in cash management in the Federal government, prior to the late '70's, was the introduction of the letter-of-credit (LOC) in 1964. Several techniques were available in the use of the letter-of-credit but most had their drawbacks that detracted from the benefits. The rapid growth in electronic data transfer has provided additional vehicles for use in effective cash management, such as widespread use of electronic funds transfers (EFT). The intent here is not to dissect the LOC program but rather to given an indication as to the initiation and evolution of our current cash management policies.

Since the President's recognition of the importance of cash management, the President's Reorganization Project sponsored the Federal Cash Management Project which consisted of a comprehensive review of cash management policies, practices and organization throughout the Federal government. In 1979, the Financial Priorities Program was established in order to identify the priority financial issues that faced the Government at that time.

Formal recognition of the need to emphasize cash management was established with the creation in 1971 of the Division of Banking and Cash Management within the Department of the Treasury. A Joint Financial Management Improvement Program (JFMIP) study completed in 1975 specified the nature of the problem and identified possible courses of corrective action. The JFMIP was initiated in 1948 by a joint effort of the Secretary of the Treasury, the Director of the Bureau of the Budget, and the Comptroller General of the United States. Its authorization cam from the Budget and Accounting Procedures Act of 1950. The program is a cooperative effort on the part of OMB, GAO, the Treasury and the Office of Personnel Management (OPM).

The overall objective of JFMIP is generally to coordinate and review financial management policies and procedures throughout the Federal government. To achieve the necessary coordination and cooperation, the head of each Federal Agency has designated a liaison to serve as a point of contact for JFMIP matters. The Program performs a variety of activities such as reviewing agency activities, promulgating policy, sponsoring conferences/workshops, and acting as a clearing house for an exchange of data. Finally, JFMIP undertakes special studies and research for the government to resolve or analyze specific problems.

Also in 1979, the President's Management Improvement Council established the Debt Collection Project as an attempt to improve credit management and debt collection. During this timeframe, OMB was continually issuing circulars which promulgated guidance in cash management in several areas from administrative requirements for grants-in-aid to state and local governments to policy statements on paying of bills.

As with any new program in the Federal government, the ultimate responsibility for providing definitive guidance rests with the Treasury, the agency having oversight authority for cash matters. We have noted the preponderance of Circulars, instructions and studies that have been distributed in response to Reform '88. But although the Treasury addressed cash management in a structural sense in Circular 1084, December, 1976, it was not until the issuance in 1978 (later revised in 1983) of Chapter 8000 of the Treasury Financial Requirements Manual, that agencies finally obtained definitive guidance. It is to this document that we now turn our attention.

2. Treasury Circular 1084

In previous years, the Treasury Department issued specific guidance in the area of cash management by means of various circulars and memorandums. But in 1976, with the issuance of Department Circular No. 1084, structural guidelines concerning the major elements of cash management were brought together into a single document. The principal stated purpose of the Circular is as follows:

> ...The regulations are issued for the purpose of broadening this Department's overview of agencies' cash management practices and establishing the requirements pursuant to which Government departments and agencies will conduct their activities involving the Government's cash so as to maximize the amount of cash available to this Department and preclude unnecessary borrowing. [Ref. 8: 1]

The general objectives of Circular 1084 are outlined in the policy statement of the Circular itself. This statement requires agencies to promulgate regulations and implement procedures that:

> ...ensure that financial activities are conducted in a manner which (a) will make the maximum amount of cash available to this Department on a continuing basis and preclude unnecessary borrowing, (b) gives full consideration at all times to the earnings value of Treasury cash balances in determining the cost/benefit relationship of financial decisions, and (c) incorporates the cash management practices described in section 5 through 9 of this Circular. [Ref. 9: 1]

The practices referred to above include billings and collections, deposits, disbursements, cash advances, and cash held outside the Treasury.

Finally, the Circular requires agencies to incorporate sound cash management procedures to include a system for monitoring operations and a periodic review.

3. <u>Treasury Financial Requirements Manual</u>

Previously it was stated that the Department of the Treasury issues cash management guidance to all Federal agencies via promulgation of various circulars and memorandums. But the guidance provided in such literature is generally written as broad policy statements. The detailed procedural instructions are provided by the Treasury Fiscal Requirements Manual (TFRM) "...the official medium through which the Treasury Department uses codified instructions for the guidance of Federal agencies, Federal Reserve Banks, and commercial bank depositories" [Ref. 10: 7]. These detailed instructions are found specifically in Chapter 8000 of the TFRM. The contents of Chapter 8000 were promulgated by Transmittal Letter No. 405 and are summarized below.

a. Disbursements

The general policy for disbursements is that agencies ensure adequate control over the timely payment of invoices and the taking of appropriate discounts. Paragraph 8040.20 provides guidance concerning the timeliness of payments. It says principally that agencies should establish a system that provides issuance and mailing of checks for receipt by the payee as close as possible to the due date, as specified. If no date is specified, the due date will be considered to be the thirtieth (30) day from receipt of the invoice. Payment will not be made on invoices prior to the receipt of the related goods and services, except as specifically authorized by contract or other agreement pursuant to law. When agencies take discounts after the expiration of the discount period or fail to make timely payment, interest penalties will be paid according to the Prompt Payment Act of 1982 (Public Law 97-177) and OMB implementing instructions A-125.

Paragraph 8040.30 requires agencies to establish procedures that will automatically take advantage of cash discounts as a matter of routine and eliminate the need for special handling. Such discounts will only be taken when terms applied in the conversion formula (a figure in the Manual itself) yield an effective annual interest rate equal to or greater than the rate based on current value of funds to Treasury. Discounted payments will be scheduled for check issuance as close to, but no later than, the last day of the discount period (assuming receipt of the goods and services has been made). Lost discounts will be reported to the Treasury in accordance with TFRM, Volume I, Chapter 6-8080.40.

Paragraph 8040.40 specifies that the Treasury Financial Communications System (TFCS) will be used only when advantageous to the Federal government. However, prior approval from the Fiscal Assistant Secretary of the Treasury must first be obtained. "Beginning on October 1, 1983, agencies are required to use TFCS for making Treasury disbursed vendor payments in excess of $25,000" [Ref. 11: 3].

b. Billings and Collections

Billings and collections are discussed in Section 8020 of the TFRM. The main areas of concern are timliness and late payments. Paragraph 8020.10 concerning timeliness requires agencies to ensure that invoices are effectuated within one working day after the day the billing office is advised that the goods have been shipped or services completed. Payment due date will not be more than 30 days from the date of the invoice. Additional guidance is provided in those cases where the value of goods and services cannot be estimated at the time the invoice is prepared. Invoices for contracts with an organization outside the U.S. Government are required to contain, as a minimum, the payment due date, provide for wire payment where appropriate, and provide for penalty, interest, and administrative charges for late payment.

Charges for late payments are covered in paragraph 8020.20. The application of charges for late payments is covered by the Federal Claims Collection Act as amended by the Debt Collection Act of 1982 (Public Law 97-365). The annual rate of interest to be charged will be calculated by the Treasury and published in the Federal Register annually by October 31, to become effective on January 1, of the following year. Contracts should include the requirement for late charges except where prohibited by law. Payments not covered by formal contracts require that the debtor first be informed of the basis of his/her indebtedness as well as the requirement concerning late charges. Interest accrues on the date of the first notification but will be waived if paid within 30 days. Agencies are required to "take under consideration" the various reimbursement methods (TFCs, lock boxes, etc.) in developing their own collection procedures.

c. Deposits

Deposits are considered from two basic factors--frequency and timeliness. Section 8030 of the TFRM requires that daily receipts of $1,000 or more will be deposited on a daily basis. Daily receipts totalling less than $1,000 may be accumulated and deposited when the amount reaches $1,000 but no less than weekly. Regarding timeliness, if deposits are made over the counter with Federal Reserve Banks and Branches, deposit will be made no later than noon on the working day following the accumulation of $1,000. Deposits by mail must be posted no later than the morning of the next working day following the accumulation of $1,000. Finally, regardless of where deposits are made, depositors will limit deposit transmittals to no more than one per day.

d. Cash Advances

Section 8050 requires that agencies establish procedures to assure that balances are maintained commensurate with immediate disbursing needs, excess balances are promptly returned to the Treasury, and, where legal, interest earned on Federal funds is promptly paid by recipient organizations. Timeliness is a factor as well. Advance payments should be made only at times and in amounts necessary to meet immediate disbursing needs.

e. Cash Held Outside the Treasury

Quarterly, agencies will review funds held by their accountable officers to ensure that such funds are commensurate with actual needs and do not exceed authorized maximum limitations.

f. Agency Responsibilities

The final section of the TFRM, Chapter 8, outlines agency responsibilities. Briefly, agencies are to establish and maintain a distinct set of written internal regulations in regards to cash management. Each agency will review periodically, but no less frequently than annually, the agency's cash management practices and submit documentation of the review to the Treasury.

4. <u>Disbursement/Receipt Techniques</u>

In effective cash management, the critical issue, as previously indicated, is making maximum utilization of the time value of money. In this regard, there are several vehicles available for use by the Federal government.

a. Electronic Networks

1. The Treasury Financial Communications Network (TFCS) is a system that allows debtors of large amounts to the Federal government to pay by having "their bank wire the funds through the Federal Reserve Bank of New York. The Treasury will furnish the receiving agency with a copy of

all TRCS data received each day, accompanied by a consolidated deposit ticket" [Ref. 12: 3]. The Fiscal Assistant Secretary must provide prior approval and, when it is deemed warranted, he can require an agency to use TFCS for the direct deposit of collections. Such use of the TRCS enhances an agency's ability to comply with the provisions of such legislation as the Prompt Payment Act, which requires timely liquidation of all vouchers. (The details of the Act will be discussed shortly.)

Future plans for the System is a move toward elimination of checks for vendor payments. "The TFCS and Automated Clearing House System will eventually be required payment alternatives" [Ref. 13: 3].

2. Electronic Funds Transfer (EFT) is a system utilizing the ability to wire funds between financial institutions. The TFCS is an EFT. The primary difference is that the TRCS is utilized within the Federal Reserve Banking System whereas electronic transfer of funds is now available to most commercial establishments. The use of EFT's should be investigated by all agencies for potential application, especially in accelerating government payments. However, care should be exercised that the decentralized environment encountered does not destroy the effectiveness of the operational network.

b. Lock Boxes

Lock boxes are another method for accelerating collections. The service enables remittances to be mailed directly to a bank and provides the necessary accounting data to meet the needs of the agency. The system is susceptible to mail delays, but no more so than if remittance is being mailed to the agency itself. In effect, it eliminates the delay created by agency administrative processing of collection(s) for deposit. This is a preferred method for processing of receipts and is recommended even when the receipts are small in amount. The desired effect is in the increased availability of cash created by the more efficient administration of processing deposits.

5. Prompt Payment Act

Congress legislated Public Law 97-177, referred to as the Prompt Payment Act, for the express purpose of inducing Federal agencies to establish those procedures which will ensure timeliness of disbursements and therefore avoid interest penalties. OMB promulgated implementing instructions via OMB Circular No. A-125 dated August 19, 1982. The key features of the Act are summarized in Appendix A.

6. Debt Collection Act

On October 25, 1982, Congress legislated the Debt Collection Act (Public Law 97-365). Its stated purpose was "to increase the efficiency of Government-wide efforts to collect debts owed the United States and to provide additional procedures for the collection of debts owed the United States" [Ref. 14: 1]. The Act includes an amendment to the Federal Claims Collection Act of 1966, which provides procedures under which any Federal agency can make public disclosure to a consumer reporting agency of attempts to collect a claim of the United States. The details of this amendment are not germane to the topic of this document, but the significant portions of the Act itself are summarized in Appendix B.

Through the improved cash management initiatives of Reform '88, the Federal government has made substantial improvements in managing its cash flow. According to the Fiscal Assistant Secretary for the Department of the Treasury:

> In 1983 alone, interest savings from Treasury's own efforts, plus the Reform '88 agency cash management savings, amount to $600 million. We expect cumulative interest savings of $4 billion by 1988. [Ref. 15: 10]

There can be no question that the last two Administrations have recognized the importance of maximizing the use of our nation's monetary resources.. The most recent Federal deficit figures have since changed the topic of effective cash management from relative importance to one of being vital to national interests. In the next chapter, we will take a look at the response of the United States Marine Corps to the challenges and directions of Reform '88 and analyze what, if any, initiatives the organization has instituted to enhance its won performance in the areas of fiscal and financial efficiency.

III. MARINE CORPS CASH MANAGEMENT POLICIES

A. INTRODUCTION

The United States Marine Corps is considerably smaller than the other uniformed services and, as such, does not engage in financial operations of the magnitude of a Department of the Navy or Air Force. However, the initiatives of Reform '88 are directed toward the cumulative cash management efforts of the entire Federal government. The inherent significance of Federal financial activity is in its totality. In this regard, the Marine Corps has adopted a positive attitude toward implementing those cash management initiatives deemed practicable. Evidence of this attitude is provided by the recent direct involvement of the Corps in a varietyof cash management test programs and initiatives, such as the use of credit cards for Temporary Duty (TAD) travel and the use of Electronic Funds Transfer for the Direct Deposit Program. These areas and others will be expanded upon later in this chapter.

B. ORGANIZATIONAL RESPONSIBILITIES

The relatively small size of the Marine Corps allows for a simple approach to the financial management control structure. In true tradition, ultimate responsibility for cash resources lies with the local disbursing officers at the field commands. This provides a major argument for the local derivation of internal control and cash management programs while still staying within the limits of higher level directives. The financial management structure is quite simple and can be summarized in the following paragraphs.

1. <u>Fiscal Director</u>

The ultimate authority on financial matters comes from the Fiscal Director, Fiscal Division, Headquarters, U.S. Marine Corps. The authority of the Fiscal Director comes directly from the Commandant of the Marine Corps and is passed to the local disbursing offices via the normal chain of command. The Fiscal Director also has direction over the Marine Corps Finance Center located in Kansas City, Mo. The Fiscal Director is the link between the Marine Corps and outside agencies such as the Comptroller of the Navy (NAVCOMPT) and the Naval Accounting and Finance Center (NAFC).

2. <u>Fiscal Division</u>

Fiscal Division is the staff of the Fiscal Director and as such is responsible for strategic planning and program management of the Corps' financial resources. In addition to providing direction to the field, Fiscal Division (FD) maintains a close liaison with the Finance Center (see below) in regards to providing guidance from higher authority as well as obtaining detailed input for decision-making purposes. FD maintains a liaison officer at the Office of the Comptroller of the Navy in order to expedite interservice administration and coordinate communication. It is FD's responsibility to design and implement cash management initiatives, utilizing input derived from comments from the field Disbursing Officers (DO's) and the Marine Corps Finance Center (MCFC).

3. Marine Corps Finance Center

The Marine Corps Finance Center (MCFC) is the central focal point for cash management in the Marine Corps. It provides detailed planning data to Fiscal Division for purposes of program design, analysis, and reporting. The Center also provides a primary source of support to the local DO's. The Center consolidates the financial activity of the Marine Corps and utilizes the information for both statistical and management analysis as well as for various reporting requirements. As an example, copies of all vouchers processed are consolidated at the Center and passed to the Department of the Treasury on a monthly basis. Coincidentally, the Accounting Division electronically processes the vouchers and prepares a report regarding timeliness of payments and the resultant interest penalties. This report is forwarded to Fiscal Division with a copy to each major command. The Quality Assurance Division has the responsibility for overseeing cash management activities and reporting significant deviations from directed policy; i.e., it provides centralized audit from the automated data systems and consolidated paperwork.

4. Marine Corps Disbursing On-Site Evaluation Team (MCDOSET)

The Marine Corps Disbursing On-Site Evaluation Team (MCDOSET) is the Marine Corps' financial audit agency and has an office at both Camp Lejeune, North Carolina, and Camp Pendleton, California. The west coast office has responsibility for units located in WestPac. The MCDOSET teams are comprised of experts in the various areas of financial management. They visit the units under their jurisdiction on an annual basis for the purpose of conducting an evaluation of the financial management program in place. MCDOSET teams work for and report to Fiscal Division (Code FDD). Though a report is prepared and forwarded, the visit is supportive in nature. Problems, questions, or irregularities are rectified on-the-spot or as soon as practicable. Ambiguities are submitted in the report to FD for further clarification. The unstated but most viable purpose of the MCDOSET is to establish a direct line of communication between the Fiscal Director and the local DO's--the ultimate responsible officer.

5. Local Disbursing Officers

The local DO's number twenty-three in the Marine Corps and are non-treasury DO's. They are located at all of the major field commands and bases. They report directly to the local commander but are ultimately responsible for any irregularities in the use of cash resources. On the occasion when a unit is deployed at sea, a DO sometimes will be designated and given his own Treasury symbol number in order to provide direct support to the deployed unit. Upon completion of deployment, this DO will be terminated and the individual will return to his previous billet.

C. USMC INITIATIVES AND POLICIES

1. Disbursements and Receipts Techniques

It has already been determined that a major aspect of effective cash management is the economic realization of the time value of money. For this reason, the disbursement and receipt techniques employed are at the very essence of the problem. Marine Corps disbursing activities are guided in the performance of their duties by the same general regulations governing Navy activities, that is, Chapter IV of the NAVCOMPT Manual. There are now a wide range of vehicles available for use in transfering and collecting funds. The Marine Corps' current use of these vehicles is limited for several reasons and are listed as follows.

a. Electronic Techniques

Though the use of electronically processed data has recently become the topic of much discussion throughout the business and financial communities, the attitude of Fiscal Division (FD) is that the USMC is not involved with a large volume of significant transactions, such as those found in the commercial contracting environment, relative to the other branches of the Armed Forces. "It is generally considered that the commercial activity is not sufficient to warrant a major program implementation. The use of Electronic Funds Transfer (EFT) or the Treasury Financial Communications System (TFCS) has not been the topic of central guidance from FD to the field. Any use of these techniques has been left to the cognizance of the local Disbursing Officers (DO's)."*

Reinforcing this attitude toward EFT/TFCS are the results of a Department of Defense (DoD) analysis regarding the use of electronically transferred data and its associated cost. "At this time, DoD is not totally convinced that the smaller users come out that much ahead in regards to the costs versus benefits. The general feeling is that EFT would probably be more useful in a contracting environment."** As a final point, the Marine Corps' view toward cash management is one of coordination with the Naval Accounting Finance Center (NAFC) and the Comptroller of the Navy (NAVCOMPT), where practicable. When the savings are significant, FD maintains an open mind to all possibilities and reviews the results of tested programs throughout DoD for possible USMC application.

b. Direct Deposit Program

There is one area in which the use of EFT has resulted in significant savings to the Corps. This is in

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*Telephone interview with Canzano, P., Disbursing Branch, Fiscal Division, Headquarters, U.S. Marine Corps, October 30, 1984.

**Ibid.

the implementation and operation of the Direct Deposit Program (DDP). The savings are realized in reduced administrative overhead for the administrating activity. In this case, the activity is the Marine Corps Finance Center (MCFC) without local DO involvement. There is enthusiasm for the DDP. The program has the solid backing of the Commandant and participation is being encouraged at all levels within the organization. The program includes active duty personnel as well as retirees. During the period May-October, 1984, participation of active duty personnel increased from 32% to 43.3%. During the same period, participation by retirees increased from 57% to 58.5%.* Even with these gains, the Department of the Navy is still far behind the Air Force and the Army, who had participation rates of 75% and 54%, respectively, as far back as the spring of this year. One reason for their success appears to be the positive programs established by the Air Force and Army. Both of these services have already published policy guidance requiring "mandatory" participation in the DDP. In the Air Force, this requirement is extended to include civilian personnel as well.

In May, 1984, FD requested that CMC authorize "mandatory" participation for active duty personnel in the USMC. Though the program remains non-mandatory as of 31 October, 1984, the guidance is to push for 100% voluntary

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*Telephone interview with Mrs. Wagner, Systems Management Division, Marine Corps Finance Center, on 9 November, 1984.

participation. The Marine Corps is planning to open the program to civilians. Also, based upon recent successes by the Air Force, the program may be extended to include the Reserve community at some time in the future.

c. Lock Boxes

The use of lock boxes is directed at improving the timeliness of deposits. However, FD is currently cautious toward their potential feasibility for Marine Corps applicability. Though lock boxes can be used for any quantity or amount of deposit, the general feeling is that a positive cost-benefit relationship is achievable primarily for activities with large daily deposits. Marine Corps DO's are non-treasury DO's and most collections are internal; i.e., commissary, exchange, cash sales, etc. Most deposits of cash and public vendor checks are made by the disbursing office in accordance with the TFRM and Chapter IV of the NAVCOMPT Manual.

There has been no request from higher authority for USMC input regarding the use of lock boxes in the past year. Likewise, there has been no planning activity directed at lock boxes at the HQMC level since FY83.* This is not complacency on the part of FD toward the use of lock boxes. Rather, individual cash receipts are not significantly large and there has just not been an abundance of information about their potential benefits. The Marine Corps is awaiting

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*Telephone interview with Canzano, P., on October 30, 1984.

the results of a recent DON evaluation of lock boxes and will review the results with a view toward identifying potential USMC applicability. Until then, the timeliness of deposits will be guided by the current directives and monitored by the Quality Assurance Division of the MCFC to ensure compliance with existing policy.

2. Minimizing Cash Balances On-Hand

a. Cash Limitations

In addition to timeliness of collections and deposits, a major objective of Marine Corps cash management policy is the minimization of idle cash balances held by the disbursing officer. Subsequent to the establishment of the Quality Assurance Division (QAD) at the MCFC, May, 1977, one of the initial thrusts was in reducing cash on-hand in the Marine Corps. This is central to the maximization of the time-value of money. Cash held by any agency is held outside the Treasury and its interest cost becomes an opportunity cost. In February, 1978, QAD wrote:

> ...reviewed the Statement of Accountability and compared cash-on-hand against the DO's authorization to hold cash at personal risk. This initial review revealed that cash balances held by USMC DO's had been reduced by approximately one million dollars in the past year.
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> As this is an ongoing review, in 1980, all Cash Requirements/Limitations Analysis Worksheets for a three month period were reviewed...this analysis revealed that DO's still had excess cash in the amount of $285,000. [Ref. 16: 2]

The Cash Requirement/Limitations Analysis Worksheet was reformatted as a result of a recent Naval

Audit Service Review. The worksheet is used by local DO's to compute their required operational cash balances. In addition to computing required cash, the worksheet provides data on "collection" checks received within a given day. Review by QAD can determine whether the collections are deposited in compliance with existing instructions. The worksheet itself was promulgated to the local DO's by a letter from the Commanding Officer, MCFC, on 15 July, 1983 [Ref. 17: 1].

Essentially, centralized guidance to DO's concerning timeliness of collections, deposits and cash balances is provided by the TFRM and NAVCOMPT Manual. The MCFC has established internal control and review programs to ensure compliance with such directives. Though there has been no centralized direction in this area from FD, the emphasis is prevalent at all levels. Of all the individuals interviewed throughout the USMC financial community, none were ignorant of the cash management initiatives of the current Administration.

b. Automatic Teller Machines (ATM)

The use of Automatic Teller Machines (ATM) is in its development stages within the Marine Corps. As recent as April, 1983, a working paper was prepared for the Fiscal Director. In summary, it said:

1. Guidance on ATM is a fiscal responsibility.
2. In 1982, Marine Corps Exchanges cahsed approximately 4.6 million checks totalling $380 million.
3. Marine Corps Exchange expenses related to check cashing were estimated to be $1,146,000.

4. There is currently a lack of cooperation within the banking industry. Exchange expenses are not likely to decrease.

5. With a future establishment of a national network by a non-banking institution, exchange ownership of ATM's will probably offer a viable method for Marines to obtain cash, regardless of account location.

6. The Navy is currently testing the use of ATM at sea. It is anticipated that the security problem and employee expense will be reduced.

7. The concept has potential Marine Corps application.

8. Recommend a presentation by an ATM manufacturer to the Fiscal Director. [Ref. 18: 1]

FD is currently reviewing the use of ATM while awaiting results of the Navy test, at which time a decision will be made as to whether or not to pursue the question of Marine Corps applicability.

c. Reducing Cash Advances

In attempting to minimize the amount of advance payments, the Marine Corps is waging the war in the area of travel; primarily TAD travel and per diem. Whereas Permanent Change of Station (PCS) travel advances are the personal responsibility of the local DO, it is the local Commander who is responsible for his own Temporary Additional Duty (TAD) budget and obligation. The lack of timeliness in recovering debts incurred by unused travel advances is due primarily to a lack of administrative controls at the local level. This lack of control contributes to a lengthy liquidation time in two ways. First, inaccuracies and errors cause the claim to have to be resubmitted. This sets the administrative processing time clock back to zero. Second, because of cash advances exceeding actual expenses, there are several instances of what appears to be apathy on the part of the travelers regarding the timely submission of their travel claims.

These problems are the direct responsibility of the Commanding Officer and not that of the DO. In fact, the QAD at the MCFC has no way of checking for such inconsistencies. The local commands are the only units that know of outstanding travel claims until such time as they are submitted for liquidation.*

This problem of timely liquidation of TAD travel is one of concern in the Marine Corps. There has been increased emphasis on tighter controls at the local level as well as initiatives at higher levels to reduce advance payments. The magnitude of the problem can be put in perspective with the use of a few illustrations. Consider the case of an overpayment of $60. Since the amount exceeds $50, the Marine Corps can have the salary offset applied over two pay periods. The estimated administrative cost for each offset is between $45 and $60. And, in the case of the Reserve community, depending on when the claim reaches the MCFC, liquidation may take as long as four months.

Consider also the case where the collection effort is directed toward small claims such as $5 or $10. The

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*Telephone interview with Captain Hinkle, Travel Section, MCFC, Kansas City, Mo., on 23 October , 1984.

economic feasibility of utilizing salary offsets for collection becomes questionable. Additionally, significant salary offsets for amounts like $2,000 could take up to 40 months to recover the government's money.

To get an idea of the significance of the problem, the Fourth Marine Aircraft Wing (4th MAW) in New Orleans has $47,000 in FY82 and $87,000 in FY83 in claims that are still outstanding. These are due to such human errors as lost files, misplaced documents, and unmatched travel claim numbers.* The local command has initiated action to tighten control of travel. The Commanding General, in order to reduce the administrative costs of collection, is no longer using paycheckages (salary offsets). Violators remit voluntarily or they are no longer authorized to draw advance travel. Document reconciliation occurs at the local command. MCFC does not maintain this data for the Marine Corps. Corps-wide numbers could only be obtained by calling every major command. However, the purpose here was only to identify a control problem that by personal experience and the above information appears to be relatively common [Ref. 19: 1].

The problem of controlling TAD travel claims is evident throughout the Marine Corps. In an attempt to obtain a measure of control, the Department of the Navy tasked the Marine Corps (FD) with participating in a test

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*Interview with Mr. Kuckenbecker, Internal Control, 4th MAW on 23 August, 1984.

program whereby credit cards are used by personnel for TAD travel and per diem. Briefly, the program requires that potential TAD travelers apply for the Citicorp Diners Club card. This card is intended to be utilized for expenses while under travel orders and for this reason cash advances have been limited to 20% of the authorized amount. Citicorp will bill the user on a monthly basis. It is the responsibility of the user to submit a travel claim for reimbursement by the government. In any case, the Citicorp bill will be paid by the individual. This program not only provides incentive for timely submission of travel claims, but reduces authorized advanced payments from 80% to 20% of estimated travel and per diem costs [Ref. 20: 1-9].

The 2nd Marine Aircraft Wing (2ndMAW), Cherry Point, N.C., has developed a generally positive attitude toward the program. Early concerns have been limited to Citicorp's lack of universal acceptance relative to other cards such as Visa and American Express. Also, the card is limited to $100 for commercial travel and means that the high costs associated with the administrative processing of Government Travel Requests (GTR) still exists. Finally, DoD is going more and more toward contract billeting, whereby a base will contract with a commercial source to provide required billeting at a reduced rate. There is a question of whether or not local billeting offices (building funds) will accept the credit card.*

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*Telephone interview with Colonel Chance, Comptroller, 2nd MAW, on October 30, 1984.

Also included in the test program are the Fourth Marine Division (Rein) and the Fourth Marine Aircraft Wing (4th Mardiv and 4th MAW, respectively) both located in New Orleans, La. These commands utilize the consolidated disbursing office at the MCFC for its travel liquidations. Along with those concerns expressed by the 2nd MAW, they have to contend with a claim processing time of 6-8 weeks, minimum. Their fear, and rightfully so, is that the individual will be billed long before he/she has received settlement from the government.* Even though there is no interest or finance charge for late payment, the financial burden on family cash assets is more than most can bear.

The test is in the initial stages. As of 1 November, 1984, potential users were making credit card applications but as yet, no one has used the card. The program is scheduled to run through the spring, 1985, at which time the test results, along with comments from the test units, will be reviewed by DON and Headquarters, U.S. Marine Corps (HQMC) for potential applicability.

d. Other

Though the Marine Corps may give the appearance of always following the lead of other services, it is not because of a lack of devotion to the principles of effective cash management. It is more of a question of applicability

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*Interview with lstLt Henderson, Internal Control, 4th Mardiv, on August 23, 1984.

and lack of sufficient resources for a program analysis. However, as exemplified by the credit card and ATM experiments, the USMC will not hesitate to try new methods which are uniquely beneficial to the organization.

In the case of imprest funds, which are widely held throughout the Corps, QAD conducted a review of imprest funds accounts during the spring of 1984. The review was to determine whether authorized cash-on-hand was in excess of requirements. The review revealed that the amounts advanced to imprest fund cashiers meet the requirements of recent cash management initiatives and are in accordance with current directives.

D. PROMPT PAYMENT ACT

1. Promulgation

The Prompt Payment Act (Public Law 97-177), as implemented by OMB Circular A-125, has been promulgated in the Marine Corps via Navy Comptroller Notice (NAVCOMPTNOTE) 7200 on 21 February, 1983 [Ref. 21: 1]. The NAVCOMPTNOTE provides policy and procedure relative to the implementation of the Prompt Payment Act within the Navy and Marine Corps. Significant requirements are summarized in the following narrative.

> Paragraph 5 provides guidance on the critical aspect of internal control--processing the invoice. According to the Notice, invoices must be processed as expeditiously as practicable. In addition, approved invoices must be received in the paying office within a maximum of 5 working days following certification of acceptance of goods or services. A proper invoice should include, as a minimum:

1. Name of the business concern and invoice date.

2. Contract number, or other authorization for delivery of property or services.

3. Description, price, and quantity of property and services actually delivered or rendered.

4. Shipping and payment terms.

5. Other substantiating documentation or information as required by the contract.

6. Name, where practical, title, phone number and complete mailing address of responsible official to whom payment is to be sent.

A properly approved invoice is an invoice which (except for fast pay orders) has been approved for payment by a certification of acceptance (usually accompanied by a receiving report). [Ref. 22: 1-2]

Paragraph 5 of the Notice futher states that invoices can be proper and still have defects. Generally, as long as it can be determined that the goods or services were properly ordered and received; that payment is requested by the same business concern; and that the proper address for payment can be determined, then a valid demand is recognized by the government. Minor defects should be corrected by the processing activity. Major defects are those that require that the invoice be returned to the vendor. The Notice provides specific guidance in establishing time tables to process such invoices and is in keeping with the intent of Prompt Payment Act.

Paragraph 6 provides payment criteria for payments under several categories. The key statement here is "Payment of a properly approved invoice will be made as close as possible to, but not later than, the due date specified in the contract" [Ref. 23: 2]. If due dates are not specified by formal agreement, payment will be made as close as possible but not later than 30 calendar days following:

1. Receipt of the invoice by the properly designated activity.

2. Acceptance of the goods or services by the proper activity.

3. Execution of a valid, signed contractual document. [Ref. 24: 2-3]

The rest of paragraph 6 provides direction on taking of discounts and establishing expedited payment windows for meat product and perishable agricultural commodities (7 and 10 days, respectively). Finally, payment date is date of the check, if that is the payment medium. If payment is made by cash, payment date is that business day when the cash is tendered.

Paragraph 7 governs interest payments. In general, whenever payment has not been remitted by the due date or the appropriate grace period, the payment is late and interest will be paid in accordance with the Act. Interest is also to be paid on improperly taken discounts. The Act provides a grace period to allow for the human element and if payment is made before the expiration of the due date, interest is not due. The grace period is normally 15 calendar days (5 days for perishable agricultural commodities and 3 days for meat products). If a discount is improperly taken, interest is calculated from the day following the expiration of the discount period until the date of the second payment, regardless of the date of the first payment.

The computation of the rate of interest is established by the Contract Disputes Act of 1978 and is published semiannually in the Federal REgister [Ref. 25: 3-4]. The computation of the interest rate is not germane to the purpose of this text but can be found on page 1, enclosure 3, of the Notice.

Paragraph 7.g. is important in that it provides accounting guidance. For example, interest payments in the Marine Corps are to be charged to the appropriation Operation and Maintenance (O&M). The Act requires that agencies report late payments to the Treasury, along with interest charges and the reason for paying late. Enclosure (5) of the Notice is a list of reason codes to be used by "local disbursing officers" in identifying the causes of late payments. These simple codes have the side benefit of allowing automated data processing sections to publish some useful statistics on government disbursing activities. The weakness of the codes is their susceptibility to judgment by those assigning the codes. For example, no one can positively determine whether or not an invoice was lost in the mail at the local level. Only the local DO knows what occurs in his shop.

Paragraph 8 summarizes the applicability and coverage of the Act. In short, "it applies to non-appropriated as well as appropriated funds. It also applies to overseas operations and progress and advance payments on cost reimburseable contracts. The Act does not apply, however, to intra-governmental transactions. Procedures for disputes and questionable payments are outlined in paragraph 8.g" [Ref. 26: 5].

Paragraph 10 of the Notice provides guidance for reporting appropriated fund payments to OMB as well as non-appropriated funds reports to NAVCOMPT. "The report for appropriated fund payments should cite the number, dollar value, frequency, and cause of all late payments, and similar data pertaining to early payments" [Ref. 27: 5]. Reports from major commands will be sent to Headquarters, U.S. Marine Corps, Fiscal Division (Code FDD), for consolidation and forwarding to NAVCOMPT. Non-appropriated fund payments will be reported to FD, after summarization by the program manager, and forwarded to NAVCOMPT.

The Notice appears to encompass the requirements and intent of the Prompt Payment Act quite adequately. Next, we will endeavor to determine if those requirements have been implemented in day-to-day operations of Marine Corps disbursing activities.

2. Implementation

While the guidance and policy provided by the Notice seemed quite explicit, there has been incidents of confusion in regards to the interpretation of certain statements in the Notice. In an attempt to clarify some of the complex verbage of the Notice, Headquarters, U.S. Marine Corps (HQMC) (Code FDA) published ALMAR 187/83 (message 011335z Sep 83).

The ALMAR reaffirmed the requirements of the Notice. It further stressed the importance of recording the dates of receipt and acceptance of invoices--critical to the establishment of payment due dates. Failure to record the dates accurately could result in erroneous early payment, late payment, and even nonpayment of invoices as well as the interest involved.

The significance of timeliness of payment can be better appreciated by use of statistics. During FY83, an analysis of paying office activities in the USMC, indicated early payment of 4,228 invoices. The dollar amount of those invoices was $12.8 million [Ref. 28: 1]. The impact of early payment (lost interest income) is estimated to be $10,000 per $1 million paid early per 30 day period.* If these estimates are reasonable, the $12.8 million paid early would cost the Treasury $128,000 in revenue in one month's time.

While no one denies the importance of timely payments, it was the action required by ALMAR 187/83 that generated a certain level of administrative hardship on some disbursing activities. The ALMAR required receiving activities to process invoices within a ten day maximum time period. "A rubber or mechanical stamp will be used to ensure that complete information is provided...attention must be given to providing the following:

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*Wolfsheimer, Phil, "Reform '88--Cash Management'; Professional Development Institute; American Society of Military Comptrollers; Kansas City, Missouri, 25 May, 1984.

1. Date invoice received.

2. Date goods/services received and UIC of receiving activity.

3. Date goods and services accepted and the Unit Identification Code (UIC) of accepting activity.

4. Date ceritifed invoice forwarded to paying office. [Ref. 29: 2]

Paying and contracting offices were directed to improve their efficiency as well. On September 13, 1983, the Secretary of the Navy (SECNAV) followed with a similar message to the Navy; ALLNAV 101/83 (131619z Sep 83).

The problem arises in the requirement to place all information on a single document (the invoice--which is a nonstandard form) and utilize a stamp of some sort in recording the data. In this day and age, many activities are making use of electronic data processing to alleviate the administrative burden and reduce overhead costs. For example, many disbursing offices with commissary complexes utilize computerized receiving reports that contain all of the above information. The audit exceptions branch, Quality Assurance Division, Marine Corps Finance Center is taking the position that the automated report is not a stamp in and of itself and is, therefore, not allowable.

> In order to minimize the administration of the Prompt Payment Act, it is our opinion that if all the received stamps are located on one document, such as the invoice, this would greatly reduce the possibility of early or late payments. Further, it would reduce the volume of paperwork required to make valid payments. [Ref. 30: 2]

Another major discrepancy encountered is the definition of early payment. A letter published by the Navy Accounting

Finance Center on November 3, 1983 (Cdr, NAFC, ltr 7240/6-1) indicates that the Navy has established a pay window which is defined as "that period of time between the fifth day prior to the due date and the expiration of the applicable grace period" [Ref. 31: 2]. Using this as guidance, many Marine Corps disbursing activities are now convinced that payments made form one to five days early are not early payments and not, therefore, in violation of the Act.

The MCFC is of the opinion that the Act is specific and has no provision to allow for early payments for any period of time. The payment is to be made "as close as possible to, but not later than, the due date specified" [Ref. 32: 1].

Other areas needing clarification include contracts with payment terms of less than 30 days. If paid on time, is this an early payment? There is no specific guidance for due dates falling on weekends or holidays. The recommendation is that due dates falling on Sunday or holidays should be paid the next working day. Due dates falling on Saturday should be paid the previous working day.

The Reserve establishment has its own unique problems. Meat products require a 10 day payment due period under the Act. However, steak dinners at restaurants for Reservists on weekend drill are not considered by the MCFC to be within the scope and intent of the Public Law.

The clarification required in regards to the above instances was provided on May 24, 1984, by CMC letter. The guidance is summarized below.

1. An early payment is not reportable nor considered a deficiency under the Act if the payment is made within 5 days of the due date.

2. The definition of meat or meat food products does not includes "meals" prepared by a vendor for consumption by an individual.

3. In regards to due dates falling on holidays or weekends, if the due date is Saturday, pay the preceding day. If the due date is Sunday or a holiday, pay the next working day.

4. There are cases where the rubber or mechanized stamp may not be required. If invoice size is too small, an addendum sheet may be utilized to carry the information. If computerized receiving reports provide the necessary information the stamps are not required.

5. Contracts calling for payment due dates of less than 30 days are considered to be in accordance with the Act if payment is made on the date due.

[Ref. 33: 1-2]

It has been said that "Implementation of the Act is expected to result not only in timely payments, but also in better business relationships with suppliers, improved competition for government business, and reduced cost for goods and services" [Ref. 34: 1].

One method of reducing costs is in the area of economic use of purchase discounts. The Marine Corps has not been ignorant of the benefits of such discounts. Figures for the period April to October, 1984, indicate that active management has been applied to the efficient processing of payment vouchers. During this time, the MCFC processed 54,000 vouchers (amounting to $17 million) that provided purchase discounts. There are no figures for early payment, but discounts lost totaled only 117 vouchers worth $8,734.*

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*Telephone interview with Mrs. E. Beaver, Payments Branch, MCFC, on November 8, 1984.

Ultimately, the most recent figures for the timeliness of payments provide a good indication of the level of program compliance and effectiveness. For the year to date, the Corps has paid 605, 968 vouchers amounting to $1.7 billion, that were covered by the Act. Of this total, 136 vouchers worth $360,400 were paid early and 12,270 (2%) of the vouchers were paid late. The late payments incurred an interest charge totalling $99,652.*

These numbers are provided to Fiscal Division (FD) via the Prompt Payment Exceptions Report generated at the MCFC. The 2% occurrence rate is slightly above DoD's rate of approximately 1%. But in the Marine Corps, the majority of the effectiveness in cash management begins with internal management control procedures at the local command level. A copy of the exceptions report is supplied to each command in order to assist them in gaining tighter controls by identifying weaknesses. The bottom line is that even 1% is too much. The Act is legislation and each incidence of non-compliance constitutes a violation of the law. With this idea in mind, the Corps is striving for even greater progress in the management of its cash disbursements.

E. DEBT COLLECTION ACT--IMPLEMENTATION

Since the passage of the Debt Collection Act of 1982, various agencies such as OMB, GAO, and DoD have reviewed and

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*Telephone interview with Mr. Canzano, FDD, HQMC, on October 30, 1984.

commented on proposed standards and instructions which must be promulgated prior to implementing the provisions of the Act. Approved detailed implementing instructions are expected from the Executive and DoD level in the near future. The Marine Corps, like other uniformed services and agencies, is in the process of reviewing and modifying its debt collection procedures. In most instances the modifications are complex but are necessary before the requirements of the Act can be fully met.

1. Promulgation

The Debt Collection Act of 1982 requires positive USMC collection action and cooperation with all Federal agencies in debt collection activities. Such a requirement, in the absence of further guidance or clarification, is wide open to interpretation. The specific requirements of the Act as outlined in Appendix B are applicable to the Marine Corps. At this time, the collection activities are being planned and implemented by the MCFC. This is very effective in that salary and administrative offsets are prime collection methods and all pay and allowances are processed through the Finance Center. The local DOs are not directly involved in the debt collection process at this time.

2. Implementation

At this point in time, the Debt Collection Act has not been formally implemented in the Marine Corps in regards to the formal publication of a directive which provides guidance to the field. But in terms of identifying Marine

Corps personnel which are active, retired, or separated from service, and who owe the Federal government money, the Corps is actively pursuing collection of the debt.

a. Wage Adjustments

The Act applies to any claim by the Federal governmnet on personnel who owe it money. By definition, any travel or entitlements overpayments constitute a debt by the individual and a claim by the government. This is a situation that occurs frequently. Seldom is the occasion when a person moves into government quarters that Basic Allowance for Quarters (BAQ) and Variable Housing Allowance (VHA) payments are stopped on time. The overpayment then becomes an instant debt. The significance of this definition of debt is put in perspective by the fact that the MCFC encounters and processes for collection, approximately 20,000 such debts "per payday."*

The previous policy was to collect through administrative pay adjustments during the next pay period. Involuntary salary offset can not exceed 15% of an individual's basic pay and allowances. But the new Act now requires due process with a four pay period delay window in the process of collecting the debt. This obviously places an undue administrative and financial hardship on the collecting agency, in this case, the Marine Corps. The USMC is attempting

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*Telephone interview with Mr. Askren, Systems Management Division, MCFC, on 23 October, 1984.

to escape the umbrella of the Act as it relates to administrative pay adjustments of enlisted personnel. This was achieved by the passage of this year's Appropriation Bill. Amendment 10-07c of U.S. Code 37 exempted administrative pay adjustments for enlisted personnel from the jurisdiction of the Act. The amendment was pushed through by the Army and the Air Force. The Marine Corps added its support to the amendment the Navy had declined.* Since the amendment is applicable only to enlisted personnel, the MCFC maintains its own policy toward officers. This policy is generally one of a prorated, delayed checkage of pay.

b. Outside the Military

The Marine Corps is actively engaged in collecting debts owed the government by Marines who have left the service by separation. There are currently 10,000 active cases totaling $8 million that involve former marines. Most of the debts were incurred due to excess leave, allotments or pay bonuses that could not be recouped before the individual's separation.** The rate of occurrence is running between 900 and 1,000 new cases per month. The Marine Corps is attempting to follow the guidance of the Act in the absence of any DoD implementing instructions.

Use of private collection agencies are authorized but the USMC has not utilized that option at this time. A

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*Ibid., 23 October, 1984.

**Telephone interview with Mrs. O'Donnell, Consolidated Disbursing Branch, MCFC, on 17 October, 1984.

DoD work statement indicated a desire to contract with a single agency who would handle all DoD collections. The Corps is leaning toward this option but nothing firm has been done at the DoD level as yet.

Due to the number of cases that the MCFC is faced with, a recent contract has been let to provide an automated management information system handle the program. The projected date for Initial Operational Capability (IOC) is during FY85.*

c. Other Agencies

The Marine Corps is also involved in a coordinated effort to collect debts of other agencies incurred by former Marines. Initially, the other agency is primarily the Department of Education. The Defense Manpower Data Center (DMDC) in Monterey, Ca., supplies each uniformed service with the names of their personnel that are in debt to the Federal government. In May, 1984, the MCFC sent 645 initial collection letters to former Marines owing the government money from debts incurred through the Department of Education.

The numbers provided by DMDC to date are as shown in Table I. (The actual figures may vary slightly due to waivers or recent repayment.)

The dollar amount has not been calculated for the total. The average amount of debt for the civilians was about $2,300. If this average is used as an approximation

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*Ibid., 17 October, 1984.

TABLE I

Government Claims on Department of Defense Personnel

Branch	No. Debtors
Army	17,076
Navy	6,064
USMC	1,642
USAF	6,878
Civ	558
Unk	38
TOTAL	32,256

of the Corps average, then the total USMC debt amounted to roughly $3,776,600. The Marine Corps accounts for 2% of the DoD total debt. However, despite the numbers above, the DoD accounts for only .005% of the total Federal government loans outstanding.*

The Act allows that mush of the due process can be avoided if other guidance is available. In the absence of higher level (DoD) guidance, the Marine Corps cannot adequately handle the administrative burden required by the Debt Collection Act. The Corps will participate in those areas cited above pending the publication of formal guidance and implementing instructions from DoD and OMB.

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*Telephone interview with Mr. Stuart Reiman, DMDC, Monterey, Ca., on October, 1984.

IV. ADMINISTRATIVE (MANAGEMENT) CONTROL

A. INTRODUCTION

While Reform '88 advocated improved cash management procedures at all levels within the Federal government, the Administration was coincidentally aware of the necessity to upgrade internal control and review efforts as well. Though internal accounting is an integral part of cash control systems, the type of problems that new initiatives such as the Prompt Payment Act are trying to alleviate are administrative (management) control inadequacies. It is important to recognize the importance of adequate control procedures in implementing any form of policy. Procedural errors due to the human element do not always indicate a lack of understanding of existing directives, but rather a less than adequate system of control and review. An evaluation of compliance to existing directives would necessarily be based on the relative magnitude of the error rate.

1. Accounting Versus Administrative Control

In 1972, the American Institute of Certified Public Accountants (AICPA) issued a clarification of the then two types of internal control. Their clarification is summarized below.

> Administrative control includes, but is not limited to, the plan of organization and the procedures and records that are concerned with the decision processes leading to management's authorization of transactions. Such authorization is a management function directly

associated with the responsibility for achieving the objectives of the organization and is the starting point for establishing accounting control of transactions.

Accounting control comprises the plan of organization and the procedures and records that are concerned with the safeguarding of assets and the reliability of financial records and consequently are designed to provide reasonable assurance that:

1. Transactions are executed in accordance with management's general or specific authorization.

2. Transactions are recorded as necessary (1) to permit preparation of financial statements in accordance with generally accepted accounting principles (GAAP)...and (2) to maintain accountability of its assets.

3. Access to assets is permitted only in accordance with management's authorization.

4. The recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action taken with respect to any differences. [Ref. 35: 27-28]

The significance of the above definitions is that they provide the basis for much of the implementation problems of recent initiatives. Until recently, calls for controls to ensure efficient use of resources were translated into tightening up accountability controls. What has been sorely lacking are controls that enhance the efficiency of organizational processes and procedures--management controls. But such controls are not as easily quantifiable or identifiable and, therefore, have received little command emphasis.

2. <u>Evolution of Federal Internal Control</u>

The Budget and Accounting Procedures Act of 1950 required that each agency establish and maintain systems for accounting and internal control in order to prevent fraud, waste, abuse, and mismanagement in government operations. However, despite this Act, instances of fraud, waste, and abuse continued to occur at unacceptable levels.

In October of 1981, the Office of Management and Budget issued its Circular No. A-123, "Internal Control Systems." It identifies standards and objectives of management control and requires that agencies develop and maintain adequate systems of control. Additionally, OMB provides guidance on assignment of management control to responsible managers, and performs assessments and reviews of control systems on a continuing basis.

In September, 1982, Public Law 97-255 (The Federal Manager's Financial Integrity Act) was passed by Congress. The Act requires that each government agency establish and maintain control systems in accordance with standards promulgated by the Comptroller General and OMB. It also requires an annual statement from each agency head to the President and Congress regarding the level of compliance of the agency's control system to the requirements of the Act. Material weaknesses should be identified along with proposed corrective action.

Actions necessary for implementing the Circular and the Act consist of establishing control systems, assigning responsibilities, performing vulnerability assessments and control reviews, and reportingthe results of the assessments and reviews.

Recent audit findings have revealed that most cases of fraud, waste and abuse in the Marine Corps have resulted from "a management failure to adequately assess areas of potential vulnerability and to establish, maintain, review and improve appropriate management controls" [Ref. 36: 2].

The significance of administrative controls were further evidenced by the use of management reviews in the FY85 budget process.

> During the 1985 budget review process, departmental and agency progress and plans in implementing the Administration's management initiatives were reviewed. These included such management initiatives as debt collection, cash management, and consolidation of administrative support systems. Never before has so much emphasis been placed on the review of management initiatives in the budget process. [Ref. 37: 3]

B. CURRENT INTERNAL ACCOUNTING CONTROL REQUIREMENTS

It has been noted that enhancing internal control within the Federal government was a specific objective of the Reform '88 management improvement initiative. The guidance and authority by which control is to be upgraded is provided by two documents, the Federal Managers Financial Integrity Act and OMB Circular No. A-123. The significant requirements of each will be highlighted in turn.

1. OMB Circular A-123

OMB Circular No. A-123 was promulgated on October 28, 1981, and its stated purpose is to "prescribe policies and standards to be followed by executive departments and agencies in establishing and maintaining internal controls in their program and administrative activities" [Ref. 38: 1]. The Circular also makes the distinction between accounting and administrative control. The important aspects of the Circular can be summarized as follows:

> Paragraph 5 places the responsibility for establishing and maintaining control systems on the agency head. Further, each agency was to have promulgated an internal control directive and a review plan no later than March 31, 1982.
>
> The objectives of internal control are outlined in paragraph 6 and include the reasonable, but not absolute, assurance that financial and other resources are safeguarded from unauthorized use of disposition; financial records and reports are reliable; transactions are properly authorized; applicable regulations and policies are adhered to; and that resources are efficiently and effectively managed.
>
> Paragraph 7 lists the standards of internal control as including documentation, recording of transactions, execution of transactions, separation of duties, adequate supervision, access to resources, competent personnel, and reasonable assurance.
>
> Paragraph 8 provides guidance as to the preparation of internal control directives and review plans required by paragraph 5. As a minimum, they will:
>
> (a) Identify specific responsibility by name or names.
>
> (b) Provide for coordination between program managers and technical staffs.
>
> (c) Require that each system meet the standards listed in paragraph 7.
>
> (d) Provide a plan by March 31, 1982, for vulnerability assessments for all agency components to be accomplished by December 31, 1982 (and a minimum of biennially thereafter).
>
> (e) Provide for internal reviews on an on-going basis.
>
> (f) Establish procedures to enforce the intended functioning of internal control. [Ref. 39: 2-8]

2. Federal Manager's Financial Integrity Act

In September, 1982, Congress passed the Federal Managers Financial Integrity Act (Public Law 97-255) which required agency heads to report each year, beginning with December 31, 1983, on the status of their systems of internal accounting control and whether their accounting systems conform to the Comptroller General's principles and standards. Any identified weaknesses in a control system are to be accompanied by plans and schedules for correcting such weakness [Ref. 40: 1-2].

On August 16, 1983, OMB published OMB Circular No. A-123 (Revised) which implemented the requirements of the Act, in addition to replacing the original Circular. In general, "the Act's requirements and objectives are basically the same as the original Circular's, except that the internal accounting and administrative control standards are to be prescribed by the Comptroller General" [Ref. 41: 1].

C. SIGNIFICANCE OF MANAGEMENT CONTROL ON CASH MANAGEMENT

In October 1978, the Assistant Director, Financial and General Management Studies Division, General Accounting Office, stated:

> Cash management is nothing more than exercising good internal control over the collection of receipts and the making of disbursements. Both should be done on a timely basis...Currently, interest on the public debt is about 10 percent of the Federal budget, so, if we can speed up government collections and slow down government disbursements, the amount of borrowed funds needed by the government to finance its operations could be reduced. [Ref. 42: 12]

1. Evolution

As far back as 1950, the Budget and Accounting Act directed the heads of Federal agencies to establish and maintain systems of internal control. The Act concerned financial and accounting data as well as accountability of property assets and funds. This is one of the first acts of legislation directed at ensuring establishment of internal accounting systems with little regard for internal administrative controls.

With the Reagan Administration's Reform '88 initiatives, a long-term program of improvement was directed at government administrative systems. The Deputy Director of OMB commented that:

> Internal controls are safeguards that any efficient organization must have. Assurance that these safeguards are in place in the agencies is a basic prerequisite to achieving the President's goal of a modernized, efficient government--the goal of Reform '88. [Ref. 43: 1]

The impetus of Reform '88 increased the emphasis on establishing complete internal control systems to include both accounting and administrative controls. As stated before, the OMB Circular (Revised) and the FMFIA both distinguished between accounting and administrative controls; however, the emphasis on accounting controls continued to overshadow the development of adequate administrative control systems. That is, internal control was viewed narrowly as maintaining a proper financial accounting reporting system and accountability for organizational resources. There was little emphasis at any level on improving the efficiency of resource use--sometimes referred to as the management decision-making process.

Not until the promulgation of Secretary of the Navy Instruction (SECNAVINST) 5200.35 of 29 July, 1983, has there been a significant change in the idea of internal control. The Instruction states that internal controls apply to all programs and functions and not just to financial management. It also states that "implementing and carrying out an internal control program is management's responsibility" [Ref. 44: 1]. The instruction supports the broader connotation of internal control.

2. The Problem

Even the AICPA has proponents who are looking toward an expanded role of the independent auditor. Several noted CPA's and Certified Internal Auditors have acknowledged that the reliance on internal accounting controls alone may not be adequate to ensure that the organization is operating efficiently and effectively in accomplishing its objectives. The mere fact that obligated funds have been accurately recorded does not preclude the fact that they might have been inefficiently spent. The Prompt Payment Act itself is directed toward management control rather than accounting control. The fact that a payment is remitted late and the government is assessed an interest charge is indicative of poor administrative control and not a breakdown in accounting procedure.

The necessity of effective management control can be appreciated when one considers that the Marine Corps Finance Center processes approximately 25,000 pay adjustments each payday.* Subjective analysis by QAD indicated, though without quantification, that causes for late payments are a recurring lack of administrative control in processing invoices for payment. Most of the problems appear to be in the areas of documentation delay, inefficient paper flow from the receiving office to the paying office, and human errors necessitating resubmission of the invoice.

Administrative controls should not be regarded as control of management decisions, but rather as control of the methods and procedures that produce information on which to base management's decisions. The necessity for adequate internal administrative control programs is essential in light of increased competition for scarce resources and the need to optimize operational economy and achieve mission effectiveness. The size, complexity, and diversity of the Federal government require the development of controls to achiev these goals.

D. MANAGEMENT CONTROL IN THE USMC

After alluding to the fact that a sound, smooth functioning system of internal control will readily enhance the implementation of new cash management initiatives, it is

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*Telephone interview with Mr. Askren, MCFC, 25 October, 1984.

necessary to review the efforts of the Marine Corps in its attempts to capture the essence of control at all levels.

1. Direction

Marine Corps Order (MCO) 7000.15 dated December 14, 1982, was the initial attempt by the Marine Corps to adequately explain internal administrative control and its interrelationship with and impact on the organization. The current publication, which supercedes MCO 7000.15 is MCO 5200.24 dated March 30, 1984, and is entitled Establishment, Maintenance, Review and Improvement of Management Control Systems. With this directive, the Marine Corps has adopted both the Secretary of the Navy's and DoD's interpretation of internal control as management control. The Order provides procedures for implementing non-accounting type control systems.

Further evidence that the Marine Corps has seized the initiative on internal control is the publication, by the Marine Corps Development and Education Command at Quantico, Va., of a manual entitled Management Control Handbook, dated June 28, 1984. The publication is basically a "how-to" book on establishing and maintaining control systems. It also includes step-by-step procedures, with examples, for conducting vulnerability assessments and risk analyses. It is apparent from this and other evidence that sound management control throughout all facets of Marine Corps operations has the support of the Commandant and Headquarters, U.S. Marine Corps.

2. Implementation

Though the Marine Corps now maintains a positive attitude toward internal (management) control, it took a while in coming and the organization may be somewhat behind schedule. Unlike Generally Accepted Accounting Principles, which have been set down in writing and generally made available to the financial management field, management control represented an abstract process to individuals who had never been involved in internal control before; at least to the degree we are now referring.

On May 8, 1984, the Fiscal Division prepared a point paper for the Commandant providing the current status of the implementation, within the Marine Corps, of the internal control requirements initiated by Reform '88.

> The Marine Corps' vulnerability assessments were completed and submitted to NAVCOMPT on July 22, 1982. At the top of the list of high vulnerability areas was financial management. The implementation of the program in FY83 was limited by late guidance, confusion, and misunderstanding. Confusion existed between the functions of management control and internal review. Additionally, confusion existed relative to the scope of the program (all functions vice just financial). MCO 5200.24 was issued for the express purpose of clarifying nebulous areas, expanding previous guidance, and establishing corollary reporting requirements. The Marine Corps anticipates greater progress toward implementation of the management control program during FY84. [Ref. 45: 1]

Unfortunately, the excitement demonstrated at the Headquarters level has not permeated to the local commands. Though directives on internal control were to be promulgated by March, 1982, one of the more recent ones encountered at the local command level is that of the Fourth Marine Division

(Rein) in New Orleans and is dated August 11, 1983. The Fourth Marine Aircraft Wing, located in the same building in New Orleans as the Fourth Division, has yet to publish any directive and does not contemplate doing so without further guidance.

The Headquarters staff officer responsible is still encountering quantitative resistance from subordinate units due to "continued confusion as to requirements as well as higher operational priorities." The Fourth Marine Aircraft Wing has taken the position that there is no advantage in promulgating instructions to units who are already expressing a lack of complete understanding of the abstract term "control." The Wing is at this time compiling a document that resembles a course of self-instruction as to the requirements of the recent directives on internal control.* This demonstrates not a lack of concern, but rather a desire for accuracy in initial assessments. It is my belief that many subordinate units are in this situation and that Headquarter's estimate of great progress during FY84 is overstated.

At this time, any improvements in cash management will be based on whatever control disbursing officers are using locally. In many cases, at the local command level, the limited guidance coupled with an increased administrative burden have relegated implementation of management control

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*Interview with Major R.F. Stimler, Comptroller, Fourth Marine Aircraft Wing, New Orleans, La., on 21 August, 1984.

programs to a position of low priority; and despite recent high level emphasis, it appears that the educational requirements will push full implementation well into FY85.

V. SUMMARY AND RECOMMENDATIONS

A. SUMMARY

The purpose of this thesis was to provide a narrative on the current status of Marine Corps cash management policy given recent management initiatives of the previous and current Administrations. In researching the topic it became apparent that mere promulgation of instructions cannot guarantee compliance to higher authority directives. Operational inaccuracies can reach a level sufficient to undermine an entire program. Implementation goes hand-in-hand with management control. It is not the intent of this document to analyze the benefits and disadvantages of the various programs. The primary objective was to identify current requirements and state the current status of Marine Corps implementational efforts.

Although relatively limited in the amount of time available for the study, a great deal of information on the topic was gathered and digested. The significant elements are highlighted below.

1. Electronic Funds Transfer/Treasury Financial Communications System--There isn't a consensus of opinion as to the benefits of electronic techniques in case management in the Marine Corps. The Corps feels that, at the local level, the current volume of transactions and size of amounts involved do not warrant a major program. At this time,

the primary use of EFT is in the Direct Deposit Program (DDP).

2. Direct Deposit Program (DDP)--The program is implemented for active duty and retirees. It is used to distribute wage and retirement compensation to participating members. Current policy is to use persuasion in recruiting program participation. Enthusiams is high at the Headquarters, U.S. Marine Corps level and plans for future expansion of the program to include civilian employees are being reviewed.

3. Lock Boxes--The Marine Corps is knowledgeable about the economic feasibility of using bank lock boxes for cash receipts. Its main concern is the benefits of implementing a major program within the organization due to the limited nature of its cash receipt operations. However, the Corps maintains an open mind and will review the results of a recent Navy test program for potential application in disbursing operations.

4. Minimizing Cash Balances--The Corps realizes the importance of minimizing cash held outside the Treasury and is experimenting with several methods to minimize cash balances on-hand at any one time. The Marine Corps Finance Center (MCFC) developed the Cash Limitations Analysis Worksheet to provide local DO's with a standard computation which will enhance their ability to forecast cash requirements.

Also, the Corps is testing the use of Automatic Teller Machines (ATM) at exchanges to minimize the cash required for check cashing functions. In addition, credit cards have been introduced to reduce cash requirements for travel and per diem. Both programs are in the experimental stage at this time. The Corps is awaiting results of a Department of the Navy test of ATM's aboard ships.

5. Prompt Payment Act--Though errors in administration create some late payments, the program is considered fully implemented. The 12 month period from October, 1983 to October, 1984 has witnessed a reduction in the number of late payments which caused interest penalties.

6. Debt Collection Act--The Debt Collection Act is a more complex initiative from the Administration and has been promulgated with very little implementing guidance from the Department of Defense. The Marine Corps has implemented procedures to process collectionof debts that have been incurred by wage discrepancies. Also, the Corps has just initiated administrative action to begin the collection of debts incurred by Marines from the Department of Health, Education, and Welfare. The legalities involved and the additional administrative burden encountered has the Marine Corps delaying any further implementation pending guidance from the Department of Defense.

7. Internal Accounting Control--It appears that implementation of sound internal management control procedures varies among the major commands. The importance of management control is realized at the Headquarters level and instructions have been published requiring its implementation at all levels. The obstacle becomes the abstract nature of the

topic, which has impeded the accpetance of management control as a viable command tool at the local command level. In this area, there is a process of education which must first take place prior to total compliance. The absence of management control directly affects all cash management. The few exceptions to prompt payment regulations were the result of administrative errors. And much of the concern regarding full implementation of the Debt Collection Act centers around proper management control of a complex and time consuming legal/fiduciary process. Table II is provided in order to grasp the status of Marine Corps cash management policy at a glance.

TABLE II

Marine Corps Program Status

	Status					
Initiative	FI	PI	II	UR	PT	PG
Prompt Payment Act	X		X			
Debt Collection Act		X				X
EFT/TRCS		X		X		
Direct Deposit Program		X	X	X		
Lock Boxes					X	
FMFIA		X	X			
ATM				X	X	
Travel Credit Cards				X	X	
Internal Management Control		X	X			

*FI--Fully Implemented
PI--Partially Implemented
II--Issued Instruction
UR--Under Review
PT--Pending Test Results
PG--Pending Further Guidance

Finally, it is recognized that this study is not exhaustive. Given more time a deeper analysis could have provided more specific implementational guidelines. It is hoped that this thesis is not the end of the subject but rather a springboard for future and more penetrating analyses. If, however, it serves only to educate future Marine Officer entrants into the financial management field, then a significant service will have been performed and a major goal accomplished.

B. RECOMMENDATIONS

1. A detailed study should be initiated to determine the actual level of compliance with and understanding of management control requirements within the Marine Corps. Such a study should not only address satisfying reporting requirements, but the implementation of procedures to educate staff and responsible officers as well.

2. A detailed study should be initiated to determine the average amount of debt collected by "due-process" under the Debt Collection Act and compare that amount to an estimated average cost to the Marine Corps for processing the collection itself. The results should be utilized to determine an economically collectable debt and provide a basis for a request to Congress for modification of the Act via the NAVCOMPT and OMB.

APPENDIX A

PROMPT PAYMENT ACT

The key features of the Prompt Payment Act (PL 97-177) are as follows:

1. Government contracting agencies will be required to pay an interest penalty if they fail to pay contractors within 15 days after the date on which payment is due. If a contract does not specify a payment due date, then the date will be considered to be 30 days after the Government receives a proper invoice for the amount due (although contracts for meat food products and perishable agricultural commodities would have even shorter due dates and grace periods).

2. If the Government fails to make payment within the 15-day grace period, then interest will begin to run on the day after the required payment due date (i.e., the 31st day after receipt of a proper invoice, if the contract does not specify a due date).

3. An invoice will be considered to have been received by the Government on the later of (a) the date the agency's designated payment office or finance center "actually receives" a proper invoice, or (b) the date on which the agency accepts the property or service involved.

4. Within 15 days from the date it receives a contractor invoice, the Government agency will be required to notify contractor of any defect or impropriety in the

invoice which would prevent the running of the period for establishing the contract payment due date.

5. A payment will be considered to have been made on the date set forth on the payment check.

6. Interest will be computed at the rate determined by the Secretary of the Treasury for interest payments under section 12 of the CDA (41 U.S. Code 611).

7. Any interest amount which is not paid at the end of any 30-day period will be compounded.

8. The Government agency involved will have to pay such interest penalties out of funds made available for the administration or operation of the program for which the penalty was incurred (i.e., no additional funds will be appropriated for the payment of such interest).

APPENDIX B

DEBT COLLECTION ACT

For the purpose of the Act, the term "claim" includes amounts owing on account of loans insured or guaranteed by the United States and all other amounts due the United States from fees, duties, leases, property, overpayments, fines, penalties, damages, interest, taxes, forfeitures, and other sources.

When the head of an agency determines that one of its members is indebted to the Federal government, the amount of the debt may be collected by a salary offset, which is a deduction of the debt amount from the debtor's current pay account in monthly installments, or other ifficially established pay intervals. The amount deducted for any period may not exceed 15 percent of disposable pay without the written consent of the debtor. This procedure is applicable to retired military and civilian personnel.

Prior to initiating any proceedings to collect any indebtedness of an individual, the agency holding the debt shall provide the individual with a minimum of 30 days written notice of the nature and amount of the debt, an intention to initiate salary offset to collect the debt and an explanation of the debtor's rights. The agency shall also provide the individual with an opportunity to inspect and copy relevant government records; an opportunity to enter into a written agreement for repayment terms; and an opportunity for a hearing concerning the existence or amount of the debt. The hearing must be conducted by someone outside the agency holding the debt or by an administrative law judge. All collections will be in accordance with the standards promulgated pursuant to the Federal Claims Collection Act of 1966.

The Act also makes provision for Federal agencies processing a loan request to obtain information from the Internal Revenue Service as to whether or not the applicant has a tax delinquent account. Likewise, the IRS, upon written request from a Federal agency, may disclose the mailing address of a taxpayer for use by that agency in locating the taxpayer in order to collect a Federal claim.

Section 10 of the Act provides guidance for using administrative offset as a method of collection. In the Act, the term "administrative offset" is defined as the withholding of money payable by the United States to or held by the United States on behalf of a person to satisfy a debt owed the United States by that person...the term does not include any agency of the United States, or of any State or local government. The procedures for utilizing administrative offset are as follows:

1. The agency will provide the debtor with written notification of the nature and amount of the claim, the intention to collect through administrative offset, and an explanation of the debtor's rights.

2. These rights include the opportunity to inspect agency records; an opportunity for the review of the determination of the agency regarding the claim; and an opportunity to enter into a written agreement with the agency concerning the repayment of debt.

3. An agency cannot collect a claim under this Act that has been outstanding for more than ten years.

Section 11 of the Act enables an agency to charge interest on outstanding debts equal to the average investment rate for Treasury tax and loan accounts. This rate is published annually by the Secretary of the Treasury but can be revised on a quarterly basis if the average rate differs significantly from the existing published rate. Significance in this case is plus or minus 2 percent. The interest shall accrue from the date of first written notification to the debtor. Charges to cover processing of delinquent claims are also authorized.

The Act also requires that agencies submit an annual report to OMB outlining the number and monetary value of the total receivables and past due accounts, rate of interest charged, amount collected and the number of claims turned over to the Department of Justice for settlement.

An amendment to the Debt Collection Act dated November 29, 1983, further facilitates the use of private collection firms to recover government debts. Previously, the Act provided that contracts with private collection firms could not exceed the limitations set in appropriation Acts. The law now allows agencies to contract with these firms on a contingent fee basis before the appropriation act is passed. However, the requirement for advanced appropriations still exists in those cases where the private contractor is paid a flat fee.

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